THE PUBLIC DEBT OF THE UNITED STATES.—II.

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DEBT-MAKING DURING THE CIVIL WAR.

The financial difficulties which confronted President Lincoln and his associates on March 4, 1861, were indeed grave. Seven States had already passed ordinances of secession; a vessel bearing supplies to Fort Sumter had been fired upon; civil war was not only threatened but already at hand; the public credit had fallen so low that from the last loan only a small sum could be realized, even at the rate of 12 per cent. interest; and the Treasury funds were so low that on the preceding December there was not sufficient money to pay members of Congress. Salmon P. Chase, Mr. Lincoln's choice for Secretary of the Treasury, at first declined the position, urging that he was not fitted for it by education or habits; but he finally yielded to the desire of the President and others, and was unanimously confirmed by the Senate. When he assumed the duties of his office he found that there were three acts, passed during the closing session of the preceding Congress, under which he could make loans; and on March 22 he advertised for proposals for a loan of $8,000,000. To his surprise and gratification, the offers for the loan amounted to over $27,000,000, at prices ranging from 85 to 100 cents on the dollar, most of the bids being at 92. The heart of the loyal people had responded to the country's needs. There was some question as to whether the loan could be better issued in the form of bonds or Treasury notes, since the latter would serve as currency to take the place of the rapidly disappearing specie. Mr. Chase, after much consideration, decided to divide the loan between the two methods, and accepted bids for about $3,000,000 in bonds and issued the remainder, about $5,000,000, in Treas-

ury notes. These Treasury notes, however, were not a forced currency or to be classed as "fiat money." They were not made a legal tender, were made payable to the order of the persons receiving them, drew 6 per cent. interest payable semi-annually, and were convertible into bonds and receivable for public dues. They thus differed from the legal-tender notes subsequently issued in the fact that they promised to pay at a definite date and to a specified person; that they bore interest and were not made by law a legal tender; while the legal-tender notes or "greenbacks" were promises to pay, without name, without date, without interest, and were made by law a legal tender. The small sum realized by the first loan lasted but a few weeks in the preparations for war which were then necessary. On May 11, another loan of $9,000,000 was advertised; but, as the war had actually been begun by the attack on Fort Sumter on April 12, the response was not as satisfactory as that of March, the prices offered ranging from 85 to 93. Bonds were issued under this for $7,310,000, and the remainder in Treasury notes at par. In June, the Secretary advertised for proposals at par for another loan, but failed to receive satisfactory responses, and he issued $12,584,000 in Treasury notes to those who chose to purchase them at par, issuing the remainder in payment of public creditors.

When Congress met on July 4, 1861, the Secretary of the Treasury expressed the opinion that $240,000,000 should be raised by borrowing, and that the public revenues should be increased by additional tariff duties and by internal revenue taxation. Within four days of the receipt of this recommendation, a bill authorizing the Secretary to borrow $250,000,000 passed the House after only one hour of general debate, and three days later it passed the Senate. It authorized several methods of raising the loan: (1) by bonds bearing 7 per cent. interest, redeemable after twenty years at the pleasure of the Government; (2) by the issue of Treasury notes of not less than $50, payable three years after date and bearing 7 per cent. interest and convertible into 6 per cent. twenty-year bonds; (3) small Treasury notes bearing no interest and payable on demand; (4) Treasury notes payable in one year, bearing 3.65 per cent. interest, exchangeable for Treasury notes of $50 and upwards. This was the first act which authorized the Secretary of the Treasury to borrow money, that

authority having formerly been granted to the President and Secretary. A supplemental bill was also passed authorizing the issue of Treasury notes of $5, and requiring that all Treasury notes of less than $50 and payable on demand without interest should be receivable in payment of public dues.

Congress adjourned on August 6, and the Secretary, armed with the authority of these acts, hastened to New York, and on the evening of August 9 met a group of financiers and bankers at the residence of the Assistant-Treasurer. The situation was fully discussed, and on the following day a further consultation was held, when a committee was appointed to devise a plan for the aid of the Government. On the fifteenth of that month the committee reported, and their plan was accepted by the bankers of New York, Philadelphia and Boston. The proposition was that the Government should issue at once $50,000,000 in Treasury notes bearing 7.3 per cent. interest, and running three years; and these the bankers would take, with the privilege of taking $50,000,000 more within two months and another $50,000,000 in another two months, the banks to subscribe in proportion to their capital, no other loan (except demand notes) to be issued by the Government during the period in which the three issues were to be made. The capital of the banks making this agreement was $120,000,000, and their coin assets $63,000,000. In order that the small amount of specie in circulation might be aided as far as possible by other machinery of circulation, the banks recommended that the Secretary make his payments by checks upon the banks instead of making them by specie; but the Secretary doubted his authority to do this and refused. The banks, however, took the bonds as they had agreed and paid the specie for them into the Treasury at the rate of about $1,000,000 per day. For a time the specie paid out by the Treasury Department remained in circulation and flowed back to the banks, but it gradually grew less, and the volume of demand Treasury notes increased. By December 10, the coin reserve of the New York banks had fallen one-half, and on December 28, 1861, they decided to suspend specie payments; and, as the payment of specie by the Government depended largely on the action of the banks, it also suspended specie payments.

Within two days of the suspension of specie payments by the banks and the Government, a bill was introduced in the House

providing for the issue of demand Treasury notes bearing no interest, to be receivable for all debts and demands due to the United States and for all debts and demands due from the United States, to be received in exchange for United States bonds, and to be a legal tender for all debts public or private within the United States. It was a new and startling proposition, and was strongly opposed by many in Congress and elsewhere; but the exigencies of the situation required action, and on February 25, 1862, it became a law in a slightly modified form. It authorized the issue by the Treasury Department of $150,000,000 of the notes, payable on demand, without interest, which were to be received for all payments by the United States, except the interest on its bonds and notes, which was to be paid in coin, and were to be accepted for all dues and payments to the United States, including the purchase of its bonds, except duties on imports, and were to be a legal tender in all transactions between individuals, or between the Government and individuals or corporations. This was the birth of the United States Legal Tender notes, popularly known as "greenbacks." On July 11 of the same year, another issue of $150,000,000 was authorized, and on March 3, 1863, still another issue of $150,000,000 in small denominations was authorized, $100,000,000 of which, however, was to take the place of others of larger denominations, thus making the total authorized issue $450,000,000. This was reduced by subsequent acts to $346,681,016. The gold value of these notes fluctuated greatly, being quickly affected by the conditions in the field, the reverses of the Union army being followed by a reduction in their value, and its successes by advances in value. In 1862 they averaged 88 cents on the dollar; in 1863 they averaged 69 cents; in July, 1864, they fell as low as 38.7 cents on the dollar, and for the year averaged 49.2 cents; by July, 1865, they were 70 cents, and then slowly moved upward and stood at par when specie payments were resumed on January 1, 1879. From the date of their issue in 1862, they became the chief circulating medium, until they were supplemented by the national bank-notes in 1864 and 1865. They were at all times accepted at par for the purchase of the bonds and Treasury notes issued by the Government, and a large proportion of the bonds sold by the Government after 1862 were paid for with them or with other obligations of the Government.

Another form of borrowing which was entered upon at this time was by an act which authorized the deposit of United States notes by individuals or corporations with the Treasury, the sub-Treasuries, or designated depositories, for which certificates of deposit bearing 5 per cent. interest were to be given. The banks found that these certificates were convenient for use in settling clearing-house balances and otherwise; and as they drew interest and the notes did not, they readily took advantage of the opportunity, and deposits of this character were freely made. The amount that the Secretary was at first authorized to accept on deposit was $25,000,000, but this was increased to $100,000,000 in 1862; and as the law only required him to keep $16,000,000 of this sum on hand to redeem the certificates of deposit, it gave a considerable sum for use in the daily transactions of the Treasury. In 1864 the limit of deposits of this character which could be received was extended to $150,000,000 and the rate of interest increased to 6 per cent. The total amount deposited in this manner was over $700,000,000, the largest sum on deposit at any time being $149,500,000, in June, 1866. Still another form of temporary loan was created by an act which authorized the Secretary of the Treasury to issue certificates of indebtedness to creditors of the Government in satisfaction of audited and settled claims of $1,000 or more, these certificates to bear interest at 6 per cent., and to be payable within one year. These certificates circulated until the accumulation of interest was sufficient to justify the holders in retaining them as an investment, and the practice of issuing them to those willing to receive them continued to the end of the war, the total amount so issued being $561,000,000.

The act of February 25, 1862, which authorized the first issue of legal-tender notes, or "greenbacks," also authorized the issue of $500,000,000 in bonds, redeemable at the pleasure of the Government after five years and payable in twenty years, bearing interest at 6 per cent., to be disposed of at their market value for specie or any Treasury notes that had been or might be issued, or for the legal-tender notes to be free from all National, State, municipal or local taxation, the interest to be paid in coin. An effort was made to dispose of the bonds, but currency was scarce, and as the Secretary also held that the term "at their market value" did not authorize him to sell them below par, the issues of that year were but about $13,000,000. In March, 1863, an

act was passed removing the limitation as to the price at which they might be sold. Under this enlarged power the Secretary made a contract with Jay Cooke, of Philadelphia, to sell the bonds, paying him a commission of one-half of one per cent. on the first $10,000,000 sold, and three-eighths of one per cent. on the remainder of his sales. Mr. Cooke, who had been active in obtaining subscriptions to the loan of 1861, immediately appointed agents in all parts of the country and advertised the bonds extensively, and by January, 1864, the entire loan of $500,000,000 had been sold at an average premium of one-third of one per cent. The subscriptions were so plentiful that they exceeded the total authorized loan by $11,000,000 before the sales by subscription agents could be stopped.

On July 1, 1864, Mr. Chase retired from the Treasury and was succeeded by Mr. Fessenden, who only occupied the position until the following March, when he entered the Senate and Mr. McCulloch became Secretary of the Treasury. Mr. Chase became Secretary of the Treasury March 4, 1861, and retired July 1, 1864. The interest-bearing debt during his service stood as follows: July 1, 1861, $90,380,873; July 1, 1862, $365,304,826; July 1, 1863, $707,531,634; July 1, 1864, $1,359,930,763. In addition to this the "debt bearing no interest" (chiefly legal-tender notes) had grown from nothing to $455,437,271. The success of the Union cause was, however, practically assured at the date of his retirement, although some of the severest battles of the war occurred during the ten months of war which still remained. Mr. Fessenden, during his service, added about $200,000,000 to the interest-bearing debt in various issues of bonds and Treasury notes under the authority of existing acts.

When Mr. McCulloch became Secretary of the Treasury on March 4, 1865, the end of the war was in sight, but he realized that large sums would be required for the pay, bounties, and transportation of the troops and for other expenses of disbanding the army. He immediately issued $70,000,000 of three-year Treasury notes, and then proceeded to offer $530,000,000 of Treasury notes and bonds, under authority of an act passed the day before his accession to the Treasury Department. These securities were offered in the form of Treasury notes of not less than $50, with three years to run, bearing 7.3 per cent. interest in currency, or 6 per cent. in coin; or bonds payable after five years

at the pleasure of the Government, and with the same interest rates as the Treasury notes, the bonds also to be for not less than $50. These notes and bonds were offered in small denominations with the purpose of making the loan a popular one and distributing it among the masses, and this plan was successful. The Treasury Department again utilized the experience of Jay Cooke, and so popular was the loan and so prompt the response of the people to this final call for funds to pay the closing expenses of the war that the entire available sum, amounting to $530,000,000, was taken within a few weeks at a premium of from one to three per cent., short-term Treasury notes forming more than one-half of the total. This was the largest sum of money ever gathered from the people, in the form of a popular loan, up to that time, and it terminated the great loans of the war and brought the national indebtedness to high-water mark, the total on August 1, 1865, being $2,381,530,294 of interest-bearing debt, and $461,-616,311 of non-interestbearing debt. The debt, less cash in the Treasury, then stood at $78.25 *per capita,* and the annual interest charge $4.29 *per capita.* To-day the debt is $13.45 *per capita,* and the annual interest charge 38 cents *per capita.*

REFUNDING AND REDUCTION OF THE CIVIL WAR DEBT.

The termination of the war did not, however, terminate the duties and anxieties of the financiers and law-makers of the Government. More than a billion dollars of outstanding obligations of the Government would fall due in 1867 and 1868, and the rate of interest being paid on most of it was 7.3 per cent. It was important not only to provide ways and means to meet these obligations when they should fall due, but, if possible, to reduce the very high and burdensome rate of interest. An act passed March 3, 1865, had authorized the issue of $600,000,000 in bonds with interest at 6 per cent. if paid in coin, and it also authorized the Secretary, in addition to this $600,000,000, to issue others of the same description in exchange for any outstanding obligations of the Government, and this was amended in 1866 so as to authorize the sale of such bonds and the application of the funds received therefrom to the reduction of the outstanding debt. Under these two acts there were issued in 1865, 1866, 1867, and 1868 over $750,000,000 of bonds at 6 per cent., by which the debt outstanding at a higher rate of interest was cancelled or "refunded." In

1867 a series of 6 per cent. bonds redeemable at the pleasure of the Government became available for redemption. Some question having arisen as to the intention of the Government regarding the time of payment of its bonds and the character of the money with which it would redeem them, Congress in 1869 passed an act declaring its intention to pay the obligations of the Government in coin or its equivalent. In 1870 an act was passed authorizing the issue of $250,000,000 of 5 per cent. bonds payable at the pleasure of the United States aften ten years, $300,000,000 at 4½ per cent., payable after fifteen years, and $1,000,000,000 at 4 per cent., payable at the pleasure of the Government after thirty years, principal and interest of all of these to be payable in coin, and by a subsequent act the amount of the 5 per cent. bonds was increased to $500,000,000. These were to be used only in taking up other obligations, but by subsequent act they also became available for obtaining the necessary funds with which to resume specie payments. Under the operations of these acts, the high-interest-rate bonds were gradually exchanged for those of a lower rate of interest, and at the same time the market value of the Government's securities was increased. The 7.3 per cent. bonds were entirely paid and cancelled by the middle of 1868, and by 1876 the amount of the 6 per cent. bonds had been cut down one-half. In 1877 the issue of 4½ per cent. and 4 per cent. bonds began, and by 1879 all of the 6 per cents. and the 5 per cent. ten-forty bonds had been redeemed or exchanged for 5, 4½ and 4 per cent. bonds, authorized by the act of 1870, chiefly the latter. Meantime, the revenues had grown rapidly and exceeded the expenditures, and large sums were applied to the reduction of the debt by purchase of bonds. On July 1, 1882, the total interest-bearing debt had been reduced to $1,463,810,400, against $2,381,530,294 in 1865; the 7.3 per cent., 6 per cent. and 5 per cent. bonds had ceased to exist, and the annual interest charge had fallen from $150,977,697 to $57,300,110, and from $4.29 *per capita* to $1.07 *per capita*. The revenues continued to exceed the expenditures by large sums, the surplus ranging from $145,000,000 in 1882 to $103,000,000 in 1887. During this period, all bonds falling due were cancelled and paid, and in addition to this the Secretary of the Treasury, under authority given him by several acts of Congress, made large purchases of unmatured bonds in the market, paying from 120 to 125, and in some cases 129, for the

long-term 4 per cent. bonds of 1907, and 106 to 109 for the 4½ per cent. bonds which had but a short time to run. Within four years from 1887, the Treasury expended more than $200,000,000 of surplus in the purchase of bonds in excess of the sinking-fund requirements, most of them being bought at a high premium. In 1892, the last 4½ per cents. disappeared, having been paid with the exception of about $25,000,000, which were exchanged for 2 per cent. bonds, the lowest rate securities that had ever been floated at par by any Government. At that date, July 1, 1892, the total interest-bearing debt had fallen to $585,029,330, or less than one-fourth of the debt of 1865, the annual interest charge to $22,893,883, or about one-seventh of that of 1865, and the *per capita* interest charge to 35 cents, or about one-twelfth of that of 1865.

THE BOND ISSUES OF 1894-6.

A check in the reduction of the national indebtedness, however, followed the financial depression which swept over the country in 1893. This depression caused a great falling off in the revenues of the Treasury, and as a consequence the expenditures exceeded the receipts. The resumption act of 1875 had directed the establishment and maintenance of a gold reserve of $100,000,000 in the Treasury with which to redeem the United States legal-tender notes (greenbacks) on presentation, and authorized the Secretary of the Treasury at any time to sell bonds, if necessary, to maintain it at this sum. A shortage of gold in the country and the heavy exports of that article led to the presentation of these notes for gold in exchange, and this, coupled with the deficiency of receipt of revenue, brought the gold reserve down to $69,757,000 by June, 1894, and as the revenues were still unsatisfactory and Congress failed to take steps for their increase, an issue of $50,000,000 of bonds was made under the authority of the resumption act, above mentioned. Much of the gold obtained by this sale of bonds was soon drawn out, however, by the presentation of United States notes, and the revenues were still less than the expenditures, and another issue of $50,000,000 became necessary in the following December. These bonds were issued at 5 per cent. interest, the rate provided by the act under which they were issued, and were sold at about 17 per cent. premium. They were payable, at the pleasure of the Government, in ten

years after date of issue. The depression continued, however, as did also the exportation of gold, of which about $26,000,000 was exported in January, 1895, and $43,000,000 of gold was withdrawn from the Treasury by the presentation of United States notes for redemption. As a result, another bond issue became necessary. The fact that the former bond issues for strengthening the gold reserve had been followed by an immediate withdrawal of the gold by the presentation of United States notes required some action which would prevent a recurrence of this, and Secretary Carlisle made a contract with a New York syndicate, which included the principal firms engaged in gold exportation, by which thirty-year 4 per cent. bonds were to be issued to them at a price equivalent to 104½. which was considerably below their market value, in consideration of which the syndicate agreed that at least one-half of the gold to be paid therefor should be obtained from abroad, and that it would "exert all financial influence and make all legitimate effort to protect the Treasury against the withdrawal of gold." Under this agreement, $62,315,400 of bonds were issued in February, 1895, which brought the gold reserve again above the necessary $100,000,000. Before the close of the year, however, the shortage in the revenue, coupled with large gold withdrawals from the Treasury by those not parties to the agreement, again reduced the balance in the Treasury far below the requisite sum, and the Secretary's report on that year's operations states that "on the sixth day of January, 1896, the reserve having been reduced to $61,251,710, a circular was issued calling for subscriptions for $100,000,000 of United States 4 per cent. bonds of the same date and character as those sold in February, 1895." This loan was offered for popular subscription, to the highest bidders, and was readily subscribed, the subscriptions far exceeding the total amount of bonds offered, the prices for the bonds accepted ranging from 110 to 120. This brought the gold reserve to a satisfactory figure, and the improved financial condition which began toward the close of that year again brought the Treasury receipts to a point above the expenditures.

THE SPANISH WAR LOAN OF 1898.

With the opening of the war with Spain in 1898 another loan became necessary, and an act was passed authorizing the Secre-

tary of the Treasury to issue 3 per cent. bonds redeemable in ten years and payable in twenty years, to the amount of $400,000,-000, or such part thereof as he might deem necessary. The act provided that they should be offered at par, as a popular loan, under such regulations as would give to all citizens of the United States an opportunity to participate, the allotments to be first made to individuals, beginning with the smallest amount and proceeding in the order of magnitude. The Secretary advertised a sale of $200,000,000 bonds. Under this, there were received more than 300,000 subscriptions, of which about 12,000 were for less than $100 each, 15,000 for sums between $100 and $200, 25,000 for sums ranging from $200 to $500, 180,000 for $500, 60,000 for sums ranging from $500 to $4,500, and 28,000 for sums ranging above $4,500. The total sum subscribed was more than $1,400,-000,000, or seven times the amount of the loan advertised. The small subscriptions were so numerous that the entire $200,000,-000 was assigned in sums less than $4,500 each, while more than one-half of the entire loan was actually assigned to persons whose subscriptions ranged from $20 to $500 each.

THE REFUNDING LOAN OF 1900.

The latest, and in some particulars, the most remarkable bond issue made by the Government, is that by which over $400,000,-000 of 3 per cent., 4 per cent. and 5 per cent. bonds were exchanged for bonds bearing 2 per cent. interest, a lower rate security than was ever issued by any other Government in the world. The act of March 14, 1900, establishing the gold standard, authorized the issue of thirty-year bonds *payable in gold coin,* bearing 2 per cent. interest, but to be used only in refunding the public debt. Of the bonds then outstanding, 100 millions were at 5 per cent. interest, payable in 1904, 720 millions at 4 per cent. interest, payable in 1907, and about 200 millions at 3 per cent. payable in 1908, and all commanded a high premium in the markets. The Secretary of the Treasury in his circular offering to exchange the new thirty-year 2 per cent. gold bonds for the shorter term, higher interest bonds stated that, upon the acceptance of any bonds in exchange for the new 2 per cent. bonds, "the present worth of the surrendered bonds to yield an income of 2¼ per cent. will be calculated, and the sum representing the difference between their

present worth and their par value will be paid to the owner by check upon the Treasurer of the United States." Under this proposition over 300 millions of the higher rate, short-term bonds were exchanged for the 2 per cents. in the short period between March 14, 1900, and June 30, 1900; and while the premium paid was about $31,000,000, the saving of interest was over $38,000,000, making the net profit to the Government over $7,000,000. The exchanges have continued at a less rapid rate since that time, the total amount of the debt refunded into the gold-bearing 2 per cent. bonds being about $446,000,000. In addition to this, there are still outstanding of 3 per cent. bonds, $97,000,000; of 4 per cent. bonds, $368,000,000, and of 5 per cent. bonds, $19,000,000. Thus, practically one-half of the interest-bearing debt of the United States now stands at 2 per cent., a lower rate than that paid by any other country, and sales of these 2 per cent. bonds are daily quoted in the financial markets of the country at a premium of over 8 per cent.

THE PROPOSED ISTHMIAN CANAL LOAN.

Another bond issue, in prospect, is that authorized by the recent act of Congress providing for the construction of an Isthmian canal. It authorizes the issue of 130 millions of 2 per cent. bonds, which are to be sold at not less than par, and to be offered for popular subscriptions on plans similar to those followed in the Spanish war loan already described.

THE PACIFIC RAILROAD.

The Pacific Railroad debt of the United States, although now happily adjusted, is worthy of mention in this connection. It consisted of about $65,000,000 of United States bonds, issued to aid the Union and Central Pacific Railroad companies in obtaining funds for the construction of the line from Omaha to San Francisco, the agreement being that the companies would pay the interest and principal of the bonds as they fell due. These bonds became a second mortgage upon the roads. The companies, however, defaulted on the interest and it was paid by the Government, which, by an act of Congress in 1878, was authorized to retain the sums due from the Government to the companies for service, to apply on the payment of the interest and a reduction of the principal of the bonds. This,

however, proved insufficient, and in 1897 steps were taken by the Government to enforce its claim by the sale of the roads. This was quickly followed by offers of settlement, and a sum equivalent to the face value of the bonds and practically all of the accrued interest was paid to the Government in cancellation of its entire claims against the Union Pacific road. In 1899, a settlement was made by the Central Pacific Company, by which it gave to the United States twenty notes of $2,940,635 each, payable at intervals of six months each in gold with interest at 3 per cent. secured by a deposit of $57,820,000 of 4 per cent. gold first-mortgage bonds of the company, which were to form part of an issue not to exceed $100,000,000 of first-mortgage bonds, and to be a first lien upon the road and certain of its property. These transactions removed the Pacific Railroad bonds from the list of obligations of the United States, and reimbursed to the Government the entire face value of the bonds and practically all of the interest which it had paid on them during the default of the railroad companies.

CURRENCY USED IN SUBSCRIPTIONS TO AND REDEMPTION OF UNITED STATES SECURITIES.

The question of the kind of currency in which the securities of the United States were to be paid has been a matter of much discussion at various times. Previous to 1860, all payments by the Government were made in specie, and no mention of the kind of currency to be used in such payments was therefore necessary. Specie payments were suspended by the Government on January 1, 1862, and the legal-tender act passed in February of that year; and subsequent to that time, the United States legal-tender notes were accepted by the Government at their face value for all securities sold by it, without reference to their gold value. It soon became necessary, therefore, to indicate by the act authorizing the bond issues the kind of currency in which they would be redeemed. In the $75,000,000 loan of 1863, the bonds were made payable, principal and interest, in "coin." The compound-interest notes of 1863 were payable in "lawful money." The "ten-forties" of 1864 were payable in coin, as were also the "five-twenties" of that year. The three-year 7.3 per cent. Treasury notes issued in 1865 stated on their face that they were payable, principal and interest, in "lawful money," but were exchange-

able for bonds payable after five years in coin. The "five-twenties" of 1865 were payable in coin, as were also the "consols" issued for consolidating and refunding the National Debt in 1865 and 1867. The bonds issued in 1867, to redeem the compound-interest notes, stated on their face that they were "payable in lawful money." In 1869, Congress passed a resolution declaring specifically that "in order to remove any doubt as to the purpose of the Government to discharge all obligations to the public creditors, and to settle conflicting questions and interpretations of law, it is hereby provided that the faith of the United States is solemnly pledged to the payment in coin or its equivalent of the United States notes and all the interest-bearing obligations, except in cases where the law authorizing the issue has expressly provided that the same may be paid in lawful money or in other currency than gold or silver." After that date all securities issued were made payable in "coin," until 1900, when the $445,000,000 of 2 per cent. "consols" issued for the refunding of the debt at a lower rate of interest stated specifically upon their face that they were payable, principal and interest, "in gold coin of the standard value of the United States."

COMPOUND-INTEREST NOTES.

One class of securities issued toward the close of the war was unique in character. A large part of the interest-bearing Treasury notes issued by the Government at various dates provided for the payment of interest semi-annually. While it was not especially intended that they should be used as circulating medium, they soon came to be so utilized to a large extent, and proved unsatisfactory because of the fact that holders were disposed to hoard them when approaching the date for the payment of the semi-annual interest, and immediately thereafter rush them into the market. Secretary Fessenden in 1864 conceived the plan of issuing compound-interest notes to take the place of these, the interest so compounded to be paid only on the maturity of the notes. He believed that this would not only obviate the fluctuating character of those utilized for currency, but have a tendency to gradually prevent their use for that purpose. He was authorized by law to issue notes bearing 7.3 per cent. interest, and he found that a three-years' 6 per cent. note, with interest compounded every six months, would amount to considerably less

at the expiration of the three years' term than would be paid for interest and principal of an ordinary 7.3 per cent. interest note for the same time. He therefore issued over $250,000,000 of these notes, utilizing them chiefly to take up the outstanding interest-bearing Treasury notes which had proved unsatisfactory as circulation, for the reasons already stated. A part of the compound-interest notes so issued entered into circulation, and some were so utilized until the close of the war, proving less unsatisfactory than those for which they had been substituted. On this general question of the form, interest-bearing qualities, and circulation of the Treasury notes issued during the war, it may be said that they differed greatly. Some of them were for one year, or even two years, with interest payable only at maturity; some simply stated on their face that the interest was payable semi-annually; still others bore interest coupons which stated the amount of interest due at certain dates, semi-annually; while in the case of the legal-tender United States notes of 1862, popularly known as "greenbacks," no interest was to be paid and no date was named at which the principal would be paid.

SINKING FUND.

The reduction of the public debt has been chiefly through the machinery of what is known as the "sinking fund." An act was passed in 1790, on the recommendation of Hamilton, establishing a sinking fund from the surplus of the customs and tonnage revenues, to be applied to the purchase of the securities of the United States at their market value, if not exceeding par; and as the country grew prosperous Congress required that certain fixed sums should be annually paid into the sinking fund, and in years of exceptional prosperity it added special sums from the surplus. In years of small receipts, the sinking fund was neglected. With the money so appropriated the commissioners of the sinking fund bought the outstanding securities at market prices, or paid and cancelled them as they became due. In 1862, a sinking fund for the reduction of the debt then being contracted was established. It directed that a sum equal to one per cent. of the public debt should be paid annually into the fund, to be used in the redemption or purchase of the securities of the Government, and that the annual interest on all bonds so purchased should also be paid into the sinking fund each year and be also

applied to the purchase of bonds. It was calculated that a faithful application of this process would wipe out the debt in about fifty years. The proposition was a very attractive one, but it has not worked altogether smoothly in application. The various heads of the Treasury Department have generally assumed that their first duty was to meet the current requirements of the Treasury, and in years of light revenues and heavy expenditures the sinking fund has received only whatever could be applied after meeting the current requirements of the service, and the sum so placed has therefore fluctuated greatly. It was not until 1869 that the Secretary of the Treasury was able to begin applying any of the revenue to the sinking fund, and for a few years this fell far below the one per cent. directed by law. In later years, however, as prosperity returned and the revenues increased, all of the sum representing one per cent. of the principal of the debt was passed to the credit of the sinking fund, and as bonds were purchased with this sum and cancelled, the interest which they would have drawn if continued in existence was also paid into the fund. These bonds are in fact cancelled as soon as purchased, but a record of their face value and rates of interest is kept, and a sum equal to the interest which they would have drawn if still outstanding is also passed to the sinking fund. As a consequence, the interest due to the sinking fund upon these purchased and extinguished bonds now amounts to much more than the required one per cent. of the principal of the debt. The payments into the sinking fund in last fiscal year amounted in round terms to $53,000,000, of which about $10,000,000 was the one per cent. payment on the principal of the outstanding interest-bearing debt, and $43,000,000 was the amount of interest which the cancelled and destroyed bonds would have drawn had they remained in existence and unpaid. In addition to this, however, large sums have been applied from the surplus funds in the Treasury to the direct purchase of bonds or to the meeting the bonds as they fell due. The total reduction of the interest-bearing debt from 1865 to 1892 was nearly $1,800,000,000, and the total amount of bonds purchased for the sinking fund up to that time was but about $820,000,000, the remainder having been accomplished by redemption of the bonds on presentation or the purchase of them in the open markets from surplus funds in the Treasury, under authority given by various acts of Congress.

NATIONAL BANKS.

A discussion of the National Debt of the United States would scarcely be complete without some reference to the National Banking System, which utilizes the bonds of the United States as security for the $325,000,000 of national bank-notes which form an important part of the circulating medium of the country. Secretary Chase recommended to Congress in December, 1861, that a system of national banks be established, with authority to issue bank-notes secured by United States bonds, but his recommendation was not adopted until February, 1863, when an act was passed establishing the National Banking System. It provided that five or more persons might organize banking associations with fully paid up capital stock, that such banks might deposit United States bonds with the Government and receive in exchange therefor national bank-notes to the amount of 90 per cent. of the par value of the bonds, which notes the banks were permitted to issue in their current business. These notes are guaranteed by the Government, which may utilize the bonds deposited for their redemption and has a first lien upon certain assets of the bank in case the proceeds of the bonds deposited do not fully meet the notes. In 1900, the limit to which banks might issue notes was extended to the par value of the bonds deposited. The advantages claimed for this system are that it assures a safe and uniform bank currency, acceptable at all times and places without reference to the financial standing of the bank, since the securities deposited with the Treasury Department by each bank are fully equal to the sum which it is permitted to issue; also, that it creates a constant market for the securities of the Government, and, by distributing them among the financiers of the country assures their support in maintaining the financial standing of the Government. The State banks, which existed prior to the National Banking act, and which had been permitted to issue currency upon such securities as the State authorities might determine, declined in most instances to transform themselves into national banks; but as their currency was unsatisfactory and in many cases occasioned loss to those accepting it, Congress in 1865 passed an act placing a tax of 10 per cent. upon their circulation, which soon terminated their operations as banks of issue, and many were transformed into national banks. The number of national banks in July, 1864, was 467; in July, 1865, 1,294;

in November, 1887, 3,061, and on June 1, 1902, 4,510, with a capital stock of $675,721,695, national bank-notes outstanding $356,747,184, and individual deposits $3,111,690,196. These banks now hold about $450,000,000 of the outstanding Government bonds, or nearly one-half of the entire amount, about $330,-000,000 of their holdings being deposited with the Treasury Department to secure their circulation.

OWNERSHIP OF THE NATIONAL SECURITIES.

The question as to the ownership of the national securities of the United States has been often discussed, but can be determined only approximately because of the fact that a large share of the bonds have interest "coupons" attached, which the holder cuts off and presents at any bank, where it is cashed and forwarded to the Treasury Department, with others of like character, for redemption. During the Civil War some of the securities were placed abroad, though not in large numbers, as investors in foreign countries were uncertain as to the result of the struggle. At the termination of the war, however, the demand abroad for securities of the United States greatly increased; and some additions to the number of foreign holders were made. In general terms, however, it may be said that all but a very small share of the securities of the Government are held in the United States. In 1803, the number of holders of United States securities was estimated by Seybert's Statistical Annals at about 15,000, and in 1880 they were estimated at over 80,000. In the Spanish war loan of 1900, the number of subscribers was over 300,000, and the number to whom bonds were issued was in round terms 290,000. Presumably, however, a large share of these bonds soon found their way into the hands of the banks and trust companies, since, as is shown elsewhere, about one-half of the outstanding bonds of the United States are now held by the national banks alone, while the savings banks, trust companies, insurance companies and other organizations of this character are also large holders. The number of holders of registered bonds is now about 58,000, and as about 85 per cent.. of the total interest-bearing indebtedness is in registered bonds, it may be estimated that the total number of holders of all classes of bonds does not at present exceed 75,000. The best estimates that can be obtained put the total of the national debt which is held abroad at $25,000,000.

"STOCKS" *versus* "BONDS."

It is a curious fact that the long-term securities of the Government prior to 1860 were usually designated as "stock" or "stocks," while since that date they have been designated as "bonds." This is true not only of the discussions regarding these securities, but also as to the laws authorizing them, and in some cases the wording of the securities themselves. Many of the securities issued prior to 1860 bore on their face the designation "stock," while many of those issued after that date bore the designation "bond." Inquiries among officers of the Government familiar with the history of the securities, some of whom were in the service of the Government prior to 1860, fail to produce any explanation of the cause of this change in designation.

It is supposed, however, that the early use of the term "stocks" was adopted from the English custom by which the government obligations had been designated as "stocks" ever since the days in which the loans made to that government were recorded by notches cut in a stick called a "tally," the person loaning the money to the government receiving one half of the stick, with his name officially endorsed thereon, his section of the stick being designated as his "stock," and the half retained by the government being designated as the "counter stock." This method of recording certain accounts was retained by the English government until about the close of the eighteenth century, and the term "stocks" is still applied to securities of that government, especially those having no fixed date for their redemption. The change in designation in the United States after 1860 seems to have been in recognition of the custom by which the term "stock" was held to relate to evidences of part ownership in an organization or corporation, and that of "bonds," to the promises of such organization to repay money loaned to it.

THE HISTORY OF THE DEBT AT A GLANCE.

The following table is interesting as showing how the National Debt of the United States rose and fell from year to year and from period to period in response to the exigencies of the national life. The figures include all indebtedness prior to 1856, but after that date they indicate the interest-bearing debt only. It should be noted, also, that the statement is for January 1st of each year prior to 1843, and for July 1st of each subsequent year.

National Indebtedness of the United States, 1791 to 1902.

Jan. 1,	1791.....	$75,463,476.52	July 1, 1847.....	$38,826,534.77
	1792....	77,227,924.66	1848.....	47,044,862.23
	1793.....	80,358,634.04	1849.....	63,061,858.69
	1794.....	78,427,404.77	1850.....	63,452,773.55
	1795.....	80,747,587.39	1851.....	68,304,796.02
	1796.....	83,762,172.07	1852.....	66,199,341.71
	1797.....	82,064,479.33	1853.....	59,803,117.70
	1798.....	79,228,529.12	1854.....	42,242,222.42
	1799.....	78,408,669.77	1855.....	31,762,761.77
	1800.....	82,976,294.35	1856.....	28,460,958.93
	1801.....	83,038,050.80	1857.....	44,700,838.11
	1802.....	80,712,632.25	1858.....	58,290,738.11
	1803.....	77,054,686.40	1859.....	64,640,838.11
	1804.....	86,427,120.88	1860.....	90,380,873.95
	1805.....	82,312,150.50	1861.....	365,304,826.92
	1806.....	75,723,270.66	1862.....	707,531,634.47
	1807.....	69,218,398.64	1863.....	1,359,930,763.50
	1808.....	65,196,317.97	1864.....	2,221,311,918.29
	1809.....	57,023,192.09	1865.....	2,381,530,294.96
	1810.....	53,173,217.52	1866.....	2,332,331,207.60
	1811.....	48,005,587.76	1867.....	2,248,067,387.66
	1812.....	45,209,737.90	1868.....	2,202,088,727.69
	1813.....	55,962,827.57	1869.....	2,162,060,522.39
	1814.....	81,487,846.24	1870.....	2,046,455,722.39
	1815.....	99,833,660.15	1871.....	1,934,696,750.00
	1816.....	127,334,933.74	1872.....	1,814,794,100.00
	1817.....	123,491,965.16	1873.....	1,710,483,950.00
	1818.....	103,466,633.83	1874.....	1,738,930,750.00
	1819.....	95,529,648.28	1875.....	1,722,676,300.00
	1820.....	91,015,566.15	1876.....	1,710,685,450.00
	1821.....	89,987,427.66	1877.....	1,711,888,500.00
	1822.....	93,546,676.98	1878.....	1,794,735,650.00
	1823.....	90,875,877.28	1879.....	1,797,643,700.00
	1824.....	90,269,777.77	1880.....	1,723,993,100.00
	1825.....	83,788,432.71	1881.....	1,639,567,750.00
	1826.....	81,054,059.99	1882.....	1,463,810,400.00
	1827.....	73,987,357.20	1883.....	1,338,229,150.00
	1828.....	67,475,043.87	1884.....	1,226,563,850.00
	1829.....	58,421,413.67	1885.....	1,196,150,950.00
	1830.....	48,565,406.50	1886.....	1,146,014,100.00
	1831.....	39,123,191.68	1887.....	1,021,692,350.00
	1832.....	24,322,235.18	1888.....	950,522,500.00
	1833.....	7,001,698.83	1889.....	829,853,990.00
	1834.....	4,760,082.08	1890.....	725,313,110.00
	1835.....	33,733.05	1891.....	610,529,120.00
	1836.....	37,513.05	1892.....	585,029,330.00
	1837.....	336,957.83	1893.....	585,037,100.00
	1838.....	3,308,124.07	1894.....	635,041,890.00
	1839.....	10,434,221.14	1895.....	716,202,060.00
	1840.....	3,573,343.82	1896.....	847,363,890.00
	1841.....	5,250,875.54	1897.....	847,365,130.00
	1842.....	13,594,480.73	1898.....	847,367,470.00
	1843.....	20,201,226.27	1899.....	1,046,048,750.00
July 1,	1843.....	32,742,922.00	1900.....	1,023,478,860.00
	1844.....	23,461,652.50	1901.....	987,141,040.00
	1845.....	15,925,303.01	1902.....	931,070,340.00
	1846.....	15,550,202.97		

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